

World Agriculture & Trade



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APEC's Food System Initiative: Opportunities for U.S. Agriculture

This month, the Asia-Pacific Economic Cooperation (APEC) forum holds its 13th Ministerial meeting in Shanghai, China. APEC has acquired a more visible role in encouraging regional integration since the 1994 Bogor Declaration, in which it announced plans to work toward free and open trade and investment for developed members by 2010 and for other members by 2020. The Declaration called for comprehensive treatment for all sectors, including controversial sectors like agriculture, and flexibility for individual members in the scheduling of trade reforms in various sectors.

At the time, APEC members pledged to pursue this regional free trade arrangement through "open regionalism," which called for reduced barriers not only among member economies but also between member and nonmember economies. This unique approach, it was argued, would not only promote economic benefits for APEC members but could also provide a platform for achieving global free trade.

An initiative of rising significance on APEC's agenda, known as the APEC Food System (AFS) is an extension of the Bogor Declaration. AFS focuses not only on the importance of trade liberalization, but also on the importance of rural devel-

opment to the region's food system. AFS was initially proposed in 1998 by APEC's Business Advisory Council (ABAC) to tailor the economic precepts of open regionalism to the specific dynamics of agriculture and food supply. The APEC leaders formally endorsed the AFS when they met in Auckland, New Zealand, in 1999.

Central to AFS is the view that trade liberalization will provide consumers with a lower cost, more secure supply of food. But eliminating impediments to trade is only part of the region's food system agenda, which also aspires to optimize gains from trade liberalization by integrat-

ing rural areas with national and international markets. Key objectives include the following.

Trade liberalization. The AFS initiative accepts APEC's Bogor Declaration, including the schedule for liberalization of tariffs and nontariff trade barriers and the "open regionalism" concept. It argues that trade impediments in food products distort the allocation of land, water, labor, and capital resources. Efficient resource allocation will be urgently needed in the coming decades as industrialization and larger, more affluent urban populations compete for the same resources as rural populations. It makes little sense, for example, for an economy with scarce land and water resources to export land- and water-intensive food products.

Food security. The AFS recognizes that with the promise of trade liberalization must come a commitment that restrictions on food exports will not be made, except in the case of national security concerns in the direst of circumstances. If markets are to be open and exporters are to expect greater access to import markets, importers must expect free access to reliable export supplies.

Rural development. AFS addresses not only trade liberalization itself but its socioeconomic effects. While trade liberalization tends to increase agricultural productivity, thus stimulating output growth, it also reduces the labor input required per unit of production. Economic opportunities must be created in rural areas to stem outmigration to already

What Is APEC?

APEC began in 1989 as an informal grouping of 12 market-oriented Asia-Pacific economies sharing goals of managing the growing interdependence in the Pacific region and sustaining its economic growth. APEC provides a forum for ministerial-level discussions and cooperation on a range of economic issues, including trade promotion and liberalization, investment and technology transfer, human resource development, energy, telecommunications, transportation, and others.

APEC Member

Australia, Brunei, Canada, Indonesia, Japan,
Malaysia, New Zealand, Philippines, Singapore,
South Korea, Thailand, United States
China, (Hong Kong/China), Taiwan
Mexico, Papua-New Guinea
Chile
Peru, Vietnam, Russia

Date joined

1989
1991
1993
1994
1998

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Achieving the APEC Food System: APEC's Agenda

- Renounce food embargoes.
- Require members to undertake self-assessments of internal and external impediments to food trade.
- Report specific measures to help implement the APEC food system in the economy's annual Individual Action Plans (IAP), which specifies annual commitments to meet the Bogor goals.
- Promote rural development through linkages with the private sector and international financial institutions, and policies that integrate rural areas with national and international markets.
- Encourage diffusion of food-system technology.

densely populated cities in the regions. More than half of the world's cities with populations greater than 10 million are located in APEC member economies.

Creating economic opportunities in rural areas requires:

- investment in infrastructure;
- rural education and health care comparable to urban areas;
- partnerships between government and private-sector agents to attract investments into rural areas and create greater off-farm employment opportunities;
- realistic rural development plans that can be funded and executed by the private sector in conjunction with the World Bank, Asian Development Bank, and Inter-American Development Bank.

Technology diffusion: AFS aims to cultivate a "food technology culture" facilitating the diffusion of useful recent developments in food production, storage, shipping, packaging, and processing. Improved access to technology is expected to accelerate gains in productivity through information technology and biotechnology, spurring growth in those economies that are less developed and thus contributing to faster and more balanced economic growth across the region's economies.

What's at Stake For the U.S.?

The U.S. stake in APEC's food system initiative is large because it would individually affect many significant U.S. food markets. The top five U.S. export markets are APEC members (Japan, Canada, Mexico, Korea, and Taiwan). In FY 2001, APEC economies accounted for more than 60 percent of U.S. agricultural and food

exports and 50 percent of imports. Moreover, practically all growth in U.S. consumer-oriented exports over the last 10 years has occurred in the APEC region.

Liberalization of the APEC food system would lead to sizable export and overall welfare gains for the U.S. This is because agriculture is a major sector of unfinished business from the Uruguay Round. With the freer play of comparative advantage after APEC trade liberalization, more efficient resource allocation across the region would lead to significant increases in import demand for food and agricultural products, particularly in East Asia. Since protection levels in the region are generally much higher for food and agricultural products than other categories of trade, achieving a more open food system will play a disproportionately large role in meeting APEC's overall Bogor goals.

The U.S. stands to gain from APEC's food security and rural development objectives. A more open food system will be a more secure system because market adjustment will be spread across more market players; thus agricultural commodity prices will be more stable. Another important AFS provision is governments' commitments not to intervene in markets for economic or political reasons except in dire circumstances. Benefits to exporters like the U.S. include less uncertainty and price volatility and better positioning as a reliable supplier rather than as a residual supplier in times of shortage.

APEC's focus on enhancing rural infrastructure and technology dissemination also corresponds to the interest of the U.S., since it will take large amounts of goods and services to achieve these goals.

Some potential outcomes affecting the U.S. include:

Sale of capital-intensive material goods such as construction machinery, power generating and water supply facilities, and communication and transportation equipment, as well as engineering, architectural and other advisory services, will create opportunities for U.S. firms.

Improvement of rural infrastructure will increase rural labor productivity and non-farm employment opportunities, which in turn will improve rural household income and create more potential customers for autos, computers, software, food, and other products from the U.S.

Diffusion of food technologies via AFS will lead to more standardized use of technologies across the region, facilitating trade and investment opportunities.

Trade Liberalization That Fosters Rural Development

Like open regionalism, AFS is a unique APEC concept. A key feature of AFS is that it does not focus simply on production agriculture but takes into account the whole complex of economic relationships and linkages that tie the region's food consumers to producers.

Virtually throughout the APEC region, agricultural trade impediments are more costly than nonagricultural trade barriers, underscoring an urgent need for reform where the greatest distortions exist. The importance of food in household budgets also underscores the importance of food-system reform as the basis for economic development across the region. By steadily expanding food trade among the APEC members based on comparative advantage, food costs should decline and economic prosperity increase. Furthermore, the goal of food security appears to be more attainable through a concerted effort by all members than through the efforts of individual nations pursuing separate programs aimed at food self-sufficiency.

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Tracing Trade To Its (Re)source

An economy's comparative advantage in producing food and agricultural products is determined in large part by its resource endowment. In looking at four broad categories of food and agricultural products, the relationship between land intensity and net trade is generally straightforward.

Land-abundant economies such as the U.S., Canada, and Australia are net exporters of food and agricultural products, especially land-intensive products such as grains, cotton, and oilseeds. Land-abundant Russia offers the only exception, importing large quantities of meat and processed products, although it is also a net exporter of land-intensive products. Japan, Korea, Singapore, Hong Kong, and Taiwan—land-scarce and densely populated economies, are net importers of all four categories of food and agricultural products.

The economies of Western Europe and Mexico, with intermediate land endowments, are net exporters and net importers of different agricultural products. Mexico, with a relatively abundant labor endowment, is a net exporter of nongrain crops and processed food, which are relatively labor-intensive. At the same time, it is a net importer of land-

intensive crops, dairy, and meat products. Peru, Malaysia, Indonesia, the Philippines and China, as land-scarce and labor-abundant economies, also follow this pattern. An important exception because of the slow development of its manufacturing sectors is Vietnam, a net exporter of rice.

In terms of economic size, income level, population density, resource mix, agricultural labor productivity, and trade dependency for agricultural supply, the economies in the APEC region are highly diverse. APEC includes the world's most populous economy (China) and the world's wealthiest in terms of GDP (the U.S.), as well as tiny economies like Brunei and Papua-New Guinea. Huge contrasts in both income and resource endowments for food production are also represented. Densely populated economies in the region (Japan, Korea, Hong Kong, Singapore, China, Taiwan, Philippines and Indonesia) face rapidly rising food demand with less and less per capita arable land and water resources. On the other hand, less densely populated and more developed APEC economies (Australia, Canada and the U.S.) enjoy abundant food production resources but prospects for growth in domestic demand are limited.

Most APEC Members with Relatively Little Land Are Net Importers of Agricultural Products

